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Dispute Over a Balanced Budget Is Philosophical as Much as Fiscal

By ANNIE LOWREY

WASHINGTON — What is so special about a balanced budget?

That question is at the heart of the warring Republican and Democratic budget plans coming out this week — with Representative Paul D. Ryan of Wisconsin vowing to eliminate the federal deficit within 10 years, and Senator Patty Murray of Washington State setting a more modest goal of bringing spending closer in line with revenue over time.

While economists generally agree that narrowing the government's deficit and limiting the size of the debt are necessary in the long run, most argue that balancing the budget would not restore the nation's still-weak economy to health in the near term. Indeed, rushing to do so with unemployment still elevated and the economy growing at only a sluggish pace could even set back the effort to reduce the deficit.

"There's nothing magic about exact balance," said Alice M. Rivlin, a Democratic economist at the Brookings Institution who has worked with Republicans like former Senator Pete V. Domenici on bipartisan deficit-reduction proposals. "The really important thing is to keep the debt from growing faster than the economy."

The question of whether to balance the budget and when is a new staging ground in the long-running fiscal fight between Republicans and the White House. Mr. Ryan, whose previous budget proposals did not bring spending below revenue for decades, vowed this time to do so by 2023, in part to satisfy the demands of the more conservative members of the Republican Caucus.

Democratic proposals — both the Senate Democratic plan to be released on Wednesday and the White House budget coming next month — are both expected to narrow the deficit substantially without balancing the budget or running a surplus.

This week, each side accused the other of fiscal imprudence. Republicans accused the White House of "never" balancing the budget, and Mr. Ryan argued that ending deficits would foster a healthier and faster-growing economy.

“This is an invitation. Show us how to balance the budget,” Mr. Ryan said. “If you don’t like the way we’re proposing to balance our budget, how do you propose to balance the budget?”

Democrats argued that Mr. Ryan’s budget would balance only on the backs of the poor, cutting taxes for the wealthy while eviscerating the social safety net. Mr. Ryan’s plan does not “plausibly deal with deficit reduction,” Jay Carney, the White House press secretary, said Tuesday. “It is important to bring our deficits down and to reduce our deficit-to-G.D.P. But they are part of — those goals are part of the broader purpose here, which is to grow the economy and strengthen the middle class.”

Economists offered more nuanced views. Closing the budget gap over the longer term could be vital to sustaining economic health, some stressed, by ensuring that the government did not crowd out private investment and by helping to keep interest rates low. But that does not make it an immediate necessity.

“Over a long period of time, you’d have a higher standard of living if you moved to a balanced budget and stayed there,” said Joel Prakken, a senior managing director at Macroeconomic Advisers, a forecasting firm in St. Louis. “But you suffer some short-run pain, and you don’t want to inflict that when the unemployment rate is already high, the economy is still recovering from the legacy of the Great Recession, and the Federal Reserve has used up most of what’s in its quiver.”

Other goals — including stabilizing debt as a proportion of economic output, rationalizing the tax code and tackling the long-term fiscal challenge posed by entitlement programs — might prove more important in the coming years, several experts said.

“We need to do fundamental reforms to the system, and if we did fundamental reforms to the system, that would help so much that we wouldn’t need to worry about the deficit as much,” said Kenneth Rogoff of Harvard.

As sensible as a balanced budget might sound — much like a balanced checkbook for a family — countries are generally able to run modest deficits for years on end while still keeping debt stable as a share of economic output. One year’s deficit is effectively paid off by later economic growth, especially if a government is investing in public goods like roads and schools.

But several right-leaning fiscal experts described a balanced budget as a tool to force a fractious Congress to tackle the nation’s long-term budget problems.

“It is important to reduce the debt, and balancing gets you there faster,” said Douglas Holtz-Eakin, a former director of the Congressional Budget Office and a prominent Republican economist. “That’s paramount.”

He said a balanced budget is a goal everyone could understand. “It gives Congress a way to say no,” he said. “Transparency and political buy-in are important, and people understand balanced budgets. It has a lot of virtues.”

The Senate Democratic proposal does not balance the budget, but it does reduce deficits to below 3 percent of economic output — a level that would stabilize the debt, economists said. During the 10-year budget window, the debt would start to shrink as a proportion of the economy.

Mr. Ryan’s budget balances by 2023. It keeps the current levels of projected tax revenue, and makes ambitious if lightly detailed cuts in a wide variety of domestic government programs, including turning the Medicaid program into a block grant to states.

A broader question, economists said, is the long-term effect the country’s debt load might impose on the economy. In the past few years, a number of broad-based studies have suggested that having government debt equivalent to or greater than about 85 or 90 percent of economic output might eventually cut into growth. Currently, public debt in the United States is about 76 percent of the size of the economy. Including debts the government owes itself, like in the Social Security Trust Fund, the total load is in fact bigger than a whole year’s economic output.

“The people who say the debt is irrelevant — that’s going too far,” said Mr. Rogoff, who along with Carmen Reinhart of Harvard produced a study of the interplay between debt and growth. “It’s a very rarefied air that we’re in already. And it could be a problem. You can’t turn your debt around in a year, and you cannot reduce debt quickly and easily.”

The handful of balanced budgets achieved in the past four decades have tended to be the result of a strong economy. The surpluses of the late 1990s, for instance, came about in no small part because of unexpectedly strong economic growth and a bubble in the stock market, as well as tax increases and spending cuts during the Clinton administration.

Now, how and whether to get back to a balanced budget seems to be a new fight between Democrats and Republicans.

“It will generate a debate over the appropriate goal of long-term fiscal policy,” wrote William A. Galston of the Brookings Institution in an analysis of Mr. Ryan’s budget plan. “Is it to eliminate the deficit and the debt, to ensure that the debt does not rise as a share of G.D.P., or something in between?”